

Incap

Company report

7/29/2024



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✓ Inderes corporate customer

This report is a summary translation of the report “Yllätyksiä ei tahdo löytyä edes etsimällä” published on 7/29/2024 at 8:13 am EEST

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res.

No surprises to be found even on close inspection

We reiterate our Accumulate recommendation for Incap with a target price of EUR 13.50. Incap's Q2 developed fully in line with our expectations as the quarterly turnaround progressed, especially with the recovery of deliveries to the largest customer. We did not make any forecast changes after the report. Incap's earnings trend is turning upward in H2, against which the stock is still moderately priced (2025e: EV/EBIT 8x). Thus, the stock's expected return is attractive over the one-year and medium-term horizons. Our extensive report on Incap, published in June, is available [here](#).

Quarterly turnaround progressed practically as expected

Incap's revenue grew by 2% to EUR 57.6 million in Q2. In organic terms, the trend was still negative, as the acquisition of Pennatronics in July 2023 increased Incap's revenue by an estimated 15 percentage points. In Q2, Incap continued to be slowed by the underutilization of production at the Indian factory to lower the inventories of the largest customer. However, deliveries from India, in practice deliveries to the largest customer, accounted for the majority of Incap's quarterly revenue growth of around 6 MEUR, or 12%, so the situation is improving in this respect as expected. Incap's adjusted EBIT for Q2 decreased by 17% from the comparison period to 7.0 MEUR, which was also very much in line with our forecast. There were no deviations in the cost structure either compared to forecasts. However, the 11.7% adjusted EBIT margin that Incap achieved in Q2 was another figure that most of its peers can only dream of, even in a peak cycle. Financial expenses and taxes were also in line with expectations, so that Incap's Q2 EPS of EUR 0.17 was exactly what we expected. H1 cash flow remained weak for working capital related reasons, but this was expected given the quarterly growth reversal and the atypically low level of receivables at the end of 2023. The development of the customer structure was also fully within our expectations.

No changes to estimates after the report

Incap reiterated its guidance for the current year, raised in July, according to which this year's revenue will be higher than last year's and EBIT will be at the same level as last year. Last year, Incap made an EBIT of 28.2 MEUR with revenue of 222 MEUR. In addition, Incap continues to expect both revenue and EBIT to increase on a quarterly basis throughout the year. Both estimates were as expected and in line with our forecasts. We did not make any forecast changes after the report. We expect Incap's revenue to grow by 6% this year to 236 MEUR and EBIT to grow by 4% to 29.5 MEUR. In the coming years, Incap should have a good capacity for organic growth due to its competitive position, and we expect an average revenue-driven adjusted EPS growth of around 15% for the period 2025-2027, as volumes from the largest customer return to growth, new customer acquisition and cross-selling progress, and the market recovers once the economic situation improves. The main risks to our forecasts relate to the continued significant revenue share of the largest customer, global investment demand and increased competition.

Expected return still exceeds the reduced required return although this year's multiples are slightly elevated

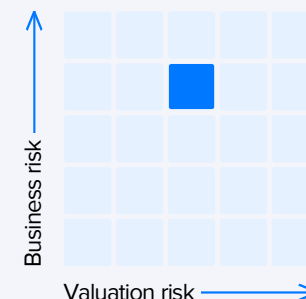
Incap's adjusted P/E ratios for 2024 and 2025 based on our estimates are 15x and 13x, and the corresponding EV/EBIT ratios are 10x and 8x. This year's multiples are a bit above historical levels and at the upper end of our approved range, so the stock is not remarkably cheap in the near term. However, next year's multiples are moderate. Thus, we see the 12-month expected return on the stock as attractive. Given the favorable medium-term earnings growth outlook, we believe the expected return over the longer term is good at current valuations. The DCF value, which is at our target price level, also supports a positive view on the stock.

Recommendation

Accumulate
(previous Accumulate)

EUR 13.50
(previous EUR 13.50)

Share price:
11.29



Key figures

	2023	2024e	2025e	2026e
Revenue	221.6	236.0	271.3	298.5
growth-%	-16%	7%	15%	10%
EBIT adj.	30.6	30.2	35.2	39.2
EBIT-% adj.	13.8 %	12.8 %	13.0 %	13.1 %
Net Income	19.8	22.2	26.0	29.2
EPS (adj.)	0.75	0.77	0.90	1.01

P/E (adj.)	10.4	14.7	12.5	11.1
P/B	2.1	2.6	2.1	1.8
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	7.2	10.2	8.2	6.8
EV/EBITDA	6.7	8.7	7.3	6.0
EV/S	1.0	1.3	1.1	0.9

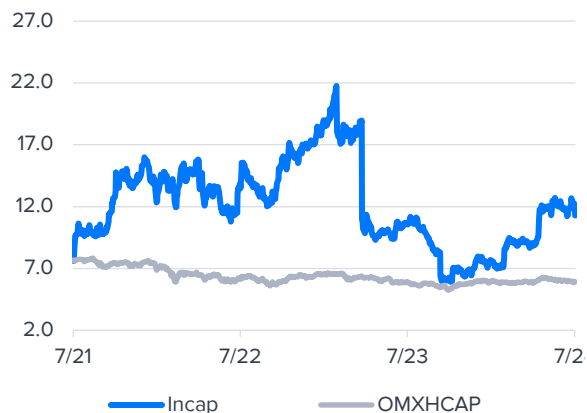
Source: Inderes

Guidance

(Unchanged)

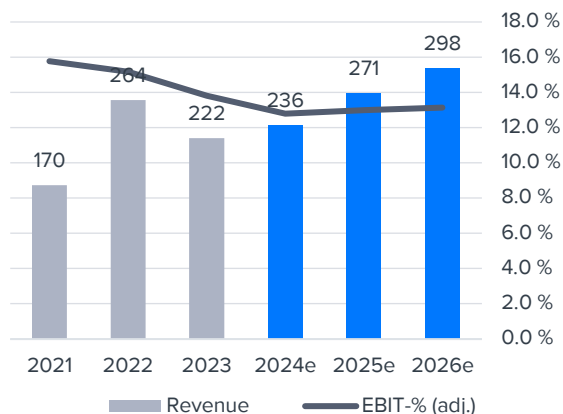
Incap expects revenue in 2024 to be higher than in 2023 and EBIT in 2024 to be at the same level as in 2023.

Share price



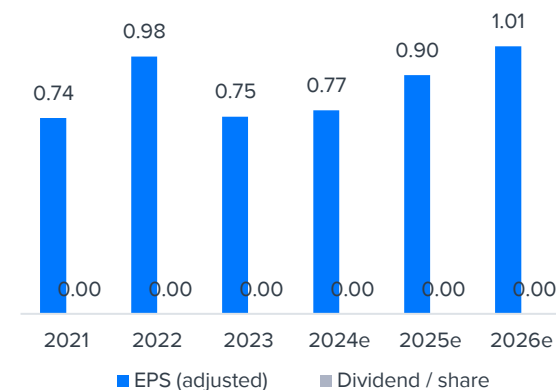
Source: Millstream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Organic growth in the electronics market, supported by global megatrends and increased outsourcing rate
- Light organization and cost structure enable a high profitability level
- Quick decision-making supports new customer procurement
- Accelerating growth with acquisitions
- Cross-selling potential created by the Pennatronics acquisition



Risk factors

- Mutually challenging value chain position upholds a brutal competitive situation
- Cyclical or volatile nature of customer industries
- Tightening competitive situation
- Company's cost efficiency deteriorating
- Supply chain disruptions
- Risk related to individual customers still elevated

Valuation	2024e	2025e	2026e
Share price	11.3	11.3	11.3
Number of shares, millions	29.4	29.4	29.4
Market cap	332	332	332
EV	307	290	267
P/E (adj.)	14.7	12.5	11.1
P/E	15.0	12.8	11.4
P/B	2.6	2.1	1.8
P/S	1.4	1.2	1.1
EV/Sales	1.3	1.1	0.9
EV/EBITDA	8.7	7.3	6.0
EV/EBIT (adj.)	10.2	8.2	6.8
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Estimates and estimate revisions

Estimates MEUR / EUR	Q2'23	Q2'24	Q2'24e	Q2'24e	Consensus		Difference (%)	2024e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	56.4	57.6	57.5				0%	236
EBIT (adj.)	8.4	7.0	7.3				-5%	30.2
EBIT	7.5	6.8	7.1				-4%	29.5
PTP	7.4	6.6	6.8				-4%	29.0
EPS (reported)	0.19	0.17	0.17				-3%	0.75
Revenue growth-%	-7.8 %	2.1 %	1.9 %				0.3 pp	6.5 %
EBIT-% (adj.)	14.9 %	12.1 %	12.8 %				-0.7 pp	12.8 %

Source: Inderes

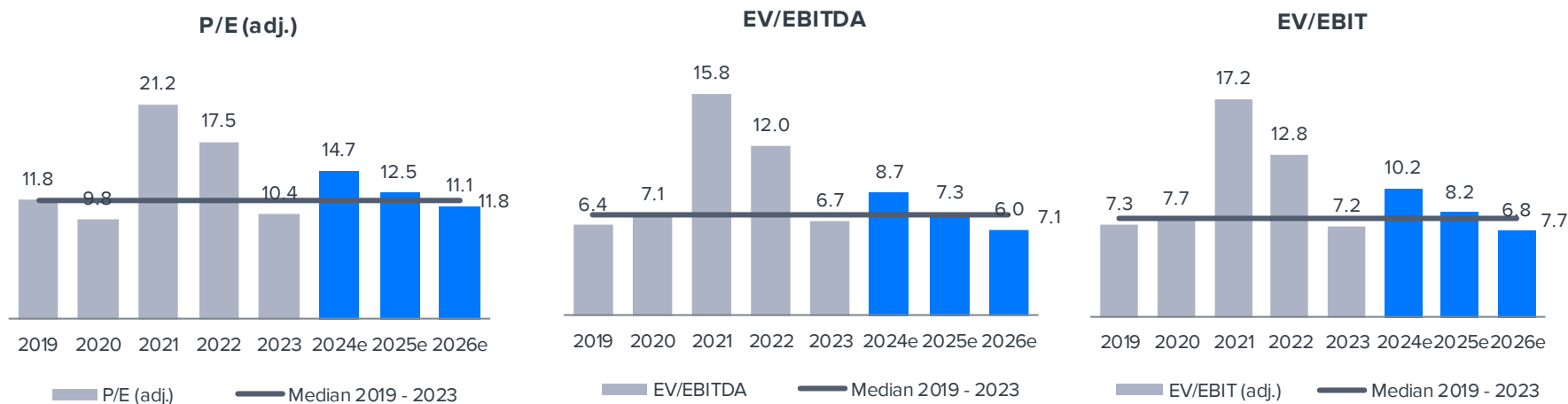
Estimate revisions MEUR / EUR	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
	Old	Actualized	%	Old	New	%	Vanha	New	%
Revenue	236	236	0%	271	271	0%	298	298	0%
EBITDA	35.1	35.3	0%	39.9	39.9	0%	44.1	44.1	0%
EBIT	29.7	29.5	-1%	34.4	34.4	0%	38.4	38.4	0%
PTP	29.3	29.0	-1%	34.1	34.2	0%	38.4	38.4	0%
EPS (excl. NRIs)	0.77	0.78	0%	0.90	0.90	0%	1.01	1.01	0%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	

Source: Inderes

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	3.38	3.69	15.70	17.10	7.75	11.29	11.29	11.29	11.29
Number of shares, millions	21.9	29.1	29.2	29.3	29.3	29.4	29.4	29.4	29.4
Market cap	74	107	459	500	228	332	332	332	332
EV	73	113	461	514	220	307	290	267	240
P/E (adj.)	11.8	9.8	21.2	17.5	10.4	14.7	12.5	11.1	9.9
P/E	11.8	11.6	21.8	18.1	11.5	15.0	12.8	11.4	10.1
P/B	3.4	2.8	7.3	5.7	2.1	2.6	2.1	1.8	1.5
P/S	1.0	1.0	2.7	1.9	1.0	1.4	1.2	1.1	1.0
EV/Sales	1.0	1.1	2.7	1.9	1.0	1.3	1.1	0.9	0.7
EV/EBITDA	6.4	7.1	15.8	12.0	6.7	8.7	7.3	6.0	4.9
EV/EBIT (adj.)	7.3	7.7	17.2	12.8	7.2	10.2	8.2	6.8	5.5
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	20.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	2.0 %

Source: Inderes



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
Cicor Technologies	187	329	9.4	8.0	5.8	5.2	0.6	0.6	14.6	12.4			1.5
Integrated Micro-Electronics	63	322	12.7	9.7	4.9	4.2	0.2	0.2	3.1				0.2
Data Modul	91	93	6.5	5.3	5.8	4.9	0.6	0.6	10.8	9.7	0.5	0.5	0.6
Hanza	217	301	12.6	9.0	5.0	4.3	0.4	0.4	18.1	9.9	2.0	2.8	1.1
Kitron	610	727	12.9	10.8	9.6	8.6	1.1	1.0	15.9	13.6	2.8	3.2	3.0
Lacroix Group SA	97	236	12.4	8.7	6.2	5.1	0.4	0.3	12.3	6.4	2.6	4.1	0.5
Jabil	11535	11924	8.3	8.3	5.7	5.6	0.5	0.5	13.1	12.1	0.3	0.3	6.5
Scanfil	479	526	9.0	8.5	6.6	6.3	0.6	0.6	10.5	10.1	3.4	3.6	1.6
Fabrinet	7356	6619	24.0	21.4	20.4	18.3	2.5	2.3	25.4	23.0			4.7
Hana Microelectronics	1040	824	16.1	13.7	8.3	7.6	1.2	1.1	19.2	16.7	2.6	2.9	1.4
SVI	426	495	14.2	12.3	11.3	10.0	0.8	0.7	13.5	12.1	2.2	2.4	1.2
TT Electronics	319	463	7.3	6.7	5.5	5.1	0.7	0.7	7.8	7.0	4.8	5.2	1.0
Katek Se													
Nolato AB	1326	1438	18.1	15.8	11.1	10.3	1.7	1.6	22.7	19.1	2.9	3.3	2.8
Celestica	5753	6220	12.3	11.2	9.1	8.3	0.7	0.7	14.7	13.3			3.5
Incap (Inderes)	332	307	10.2	8.2	8.7	7.3	1.3	1.1	14.7	12.5	0.0	0.0	2.6
Average			12.6	10.7	8.2	7.4	0.9	0.8	14.4	12.7	2.4	2.8	2.1
Median			12.5	9.3	6.4	6.2	0.7	0.6	14.0	12.1	2.6	3.0	1.4
Diff-% to median			-19%	-12%	36%	16%	96%	69%	4%	3%	-100%	-100%	80%

Source: Refinitiv / Inderes

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	264	72.7	56.4	50.0	42.4	222	51.4	57.6	61.0	66.0	236	271	298	328
Incap	264	72.7	56.4	50.0	42.4	222	51.4	57.6	61.0	66.0	236	271	298	328
EBITDA	42.8	12.4	8.6	6.9	5.0	32.8	7.3	8.6	9.3	10.1	35.3	39.9	44.1	48.5
Depreciation	-3.8	-1.1	-1.1	-1.2	-1.3	-4.6	-1.4	-1.8	-1.4	-1.4	-5.8	-5.4	-5.7	-5.7
EBIT (excl. NRI)	40.0	11.4	8.4	6.4	4.4	30.6	6.2	7.0	8.1	9.0	30.2	35.2	39.2	43.5
EBIT	39.0	11.3	7.5	5.7	3.7	28.2	6.0	6.8	7.9	8.8	29.5	34.4	38.4	42.7
NRIs	-1.0	-0.1	-0.9	-0.7	-0.7	-2.4	-0.2	-0.1	-0.2	-0.2	-0.7	-0.8	-0.8	-0.8
Net financial items	-2.3	-0.4	-0.2	0.1	-1.3	-1.8	0.3	-0.3	-0.3	-0.2	-0.4	-0.3	0.0	0.5
PTP	36.7	10.9	7.4	5.7	2.4	26.4	6.3	6.6	7.6	8.6	29.0	34.2	38.4	43.2
Taxes	-9.0	-2.6	-1.7	-1.4	-1.0	-6.6	-1.4	-1.4	-1.9	-2.1	-6.9	-8.2	-9.2	-10.4
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	27.6	8.4	5.7	4.4	1.4	19.8	4.9	5.1	5.7	6.4	22.2	26.0	29.2	32.8
EPS (adj.)	0.98	0.29	0.22	0.17	0.07	0.75	0.17	0.18	0.20	0.22	0.78	0.90	1.01	1.14
EPS (rep.)	0.94	0.29	0.19	0.15	0.06	0.68	0.17	0.17	0.19	0.22	0.75	0.88	0.99	1.12

Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	55.4 %	36.3 %	-7.8 %	-29.1 %	-46.1 %	-16.0 %	-29.3 %	2.1 %	21.9 %	55.5 %	6.5 %	15.0 %	10.0 %	10.0 %
Adjusted EBIT growth-%	49.4 %	66.4 %	-4.0 %	-41.9 %	-67.1 %	-23.5 %	-46.0 %	-16.9 %	26.3 %	104.1 %	-1.3 %	16.7 %	11.2 %	11.0 %
EBITDA-%	16.2 %	17.0 %	15.3 %	13.7 %	11.7 %	14.8 %	14.2 %	14.9 %	15.2 %	15.4 %	14.9 %	14.7 %	14.8 %	14.8 %
Adjusted EBIT-%	15.2 %	15.7 %	14.9 %	12.8 %	10.4 %	13.8 %	12.0 %	12.1 %	13.3 %	13.6 %	12.8 %	13.0 %	13.1 %	13.3 %
Net earnings-%	10.5 %	11.5 %	10.1 %	8.8 %	3.3 %	9.0 %	9.6 %	8.9 %	9.3 %	9.8 %	9.4 %	9.6 %	9.8 %	10.0 %

Lähde: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	29	45	43	44	44
Goodwill	7	8	8	8	8
Intangible assets	0	6	5	4	3
Tangible assets	20	30	29	31	32
Associated companies	0	0	0	0	0
Other investments	0	0	0	0	0
Other non-current assets	1	0	1	1	1
Deferred tax assets	0	1	0	0	0
Current assets	136	137	161	194	229
Inventories	92	71	68	77	84
Other current assets	0	0	0	0	0
Receivables	36	24	47	54	60
Cash and equivalents	8	43	45	62	85
Balance sheet total	168	182	204	238	273

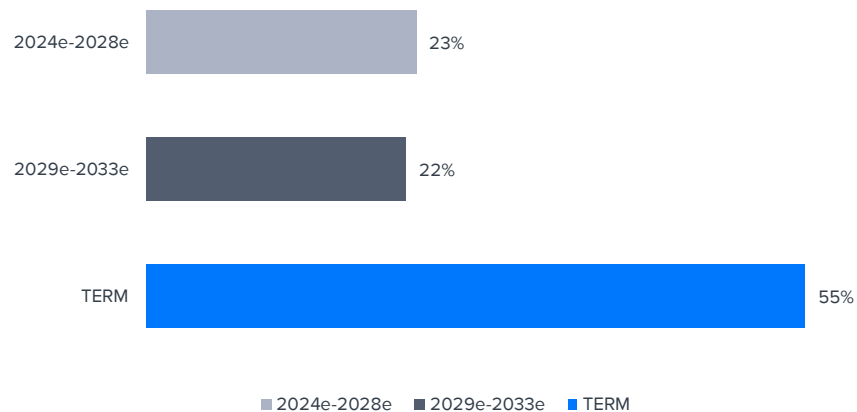
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	87	107	129	155	184
Share capital	1	1	1	1	1
Retained earnings	70	90	112	138	167
Hybrid bonds	0	0	0	0	0
Revaluation reserve	-5	0	0	0	0
Other equity	22	16	16	16	16
Minorities	0	0	0	0	0
Non-current liabilities	13	33	18	18	18
Deferred tax liabilities	1	1	1	1	1
Provisions	2	0	0	0	0
Interest bearing debt	11	30	15	15	15
Convertibles	0	0	0	0	0
Other long term liabilities	0	2	2	2	2
Current liabilities	68	42	57	65	71
Interest bearing debt	11	4	5	5	5
Payables	57	38	52	60	66
Other current liabilities	1	1	1	1	1
Balance sheet total	168	182	204	238	273

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-16.0 %	6.5 %	15.0 %	10.0 %	10.0 %	5.0 %	5.0 %	4.0 %	4.0 %	3.0 %	2.0 %	2.0 %
EBIT-% (adj.)	12.7 %	12.5 %	12.7 %	12.9 %	13.0 %	13.0 %	13.0 %	13.0 %	12.7 %	12.5 %	12.5 %	12.5 %
EBIT (operating profit)	28.2	29.5	34.4	38.4	42.7	44.8	47.1	48.9	49.7	50.4	51.4	
+ Depreciation	4.6	5.8	5.4	5.7	5.7	5.6	5.7	5.9	6.1	6.2	6.3	
- Paid taxes	-6.6	-6.9	-8.2	-9.2	-10.4	-11.0	-11.6	-12.1	-12.3	-12.6	-12.9	
- Tax, financial expenses	-0.5	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	
+ Tax, financial income	0.0	0.2	0.2	0.3	0.4	0.4	0.5	0.6	0.7	0.7	0.8	
- Change in working capital	14.4	-6.6	-8.2	-5.7	-4.5	-4.1	-4.3	-3.6	-3.8	-2.9	-2.0	
Operating cash flow	40.2	21.7	23.4	29.2	33.7	35.5	37.2	39.5	40.1	41.6	43.3	
+ Change in other long-term liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-16.3	-4.7	-6.0	-6.0	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0	-6.5	
Free operating cash flow	23.9	17.0	17.4	23.1	26.7	28.5	30.2	32.5	33.1	34.5	36.9	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	23.9	17.0	17.4	23.1	26.7	28.5	30.2	32.5	33.1	34.5	36.9	507
Discounted FCFF		16.3	15.3	18.6	19.6	19.1	18.5	18.2	17.0	16.2	15.8	217
Sum of FCFF present value		391	375	360	341	322	302	284	266	249	233	217
Enterprise value DCF		391										
- Interest bearing debt		-34.1										
+ Cash and cash equivalents		42.6										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		400										
Equity value DCF per share		13.6										

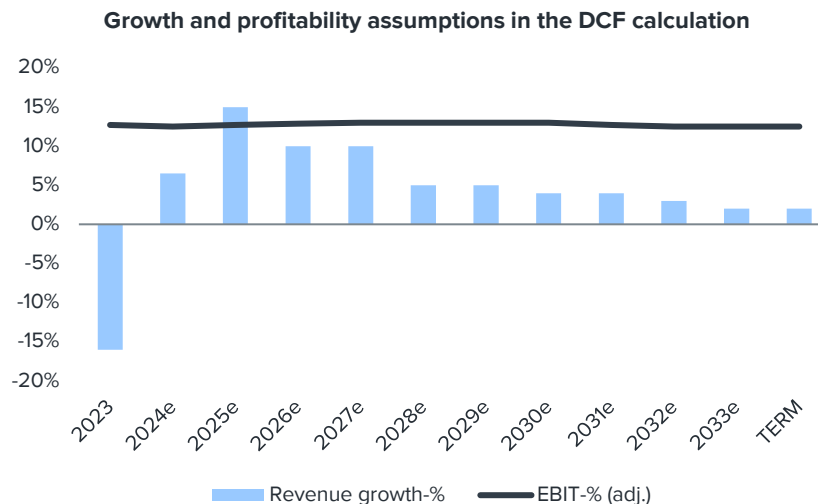
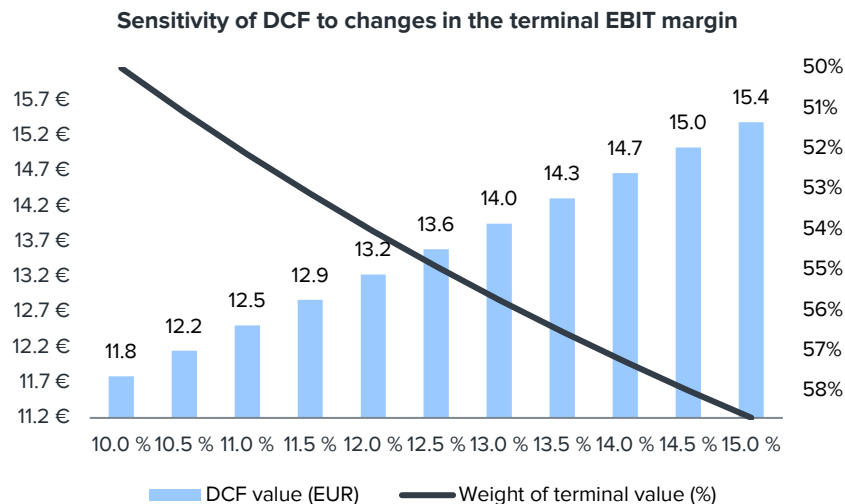
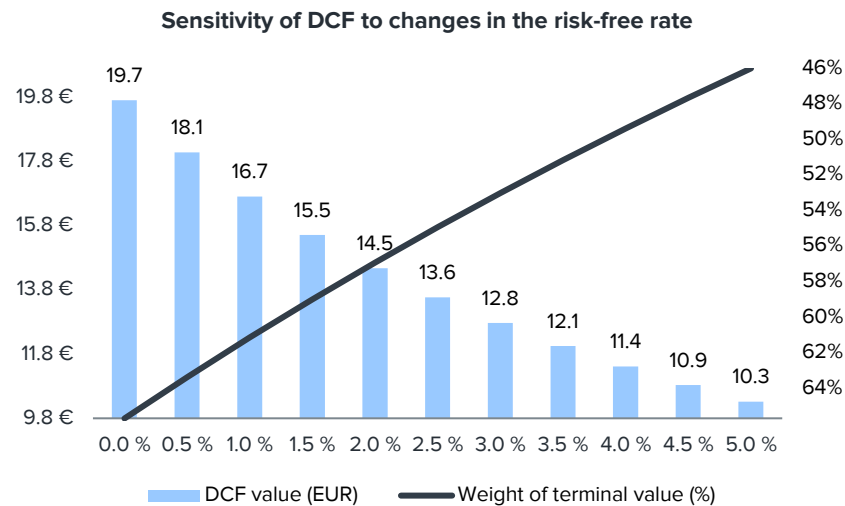
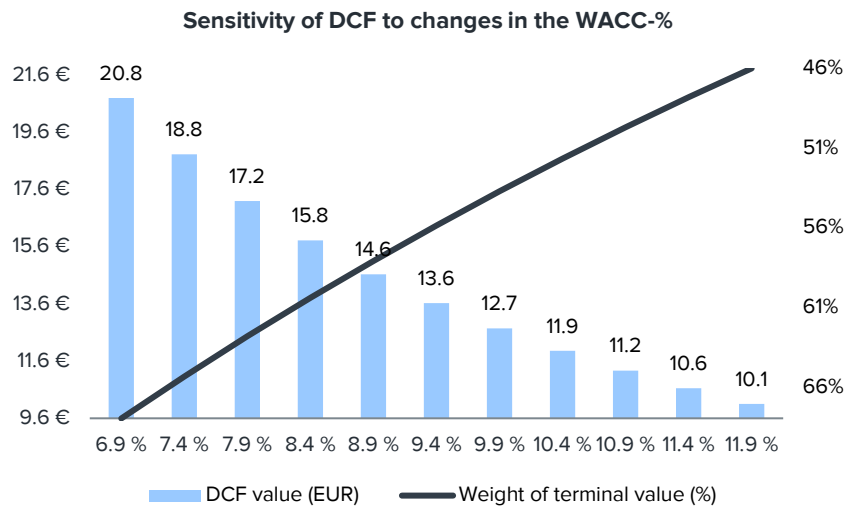
Cash flow distribution



WACC	
Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	5.0 %
Equity Beta	1.40
Market risk premium	4.75%
Liquidity premium	0.90%
Risk free interest rate	2.5 %
Cost of equity	10.1 %
Weighted average cost of capital (WACC)	9.4 %

Source: Inderes

DCF sensitivity calculations and key assumptions in graphs



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	169.8	263.8	221.6	236.0	271.3	EPS (reported)	0.72	0.94	0.68	0.75	0.88
EBITDA	29.3	42.8	32.8	35.3	39.9	EPS (adj.)	0.74	0.98	0.75	0.77	0.90
EBIT	26.0	39.0	28.2	29.5	34.4	OCF / share	0.24	0.09	1.37	0.74	0.80
PTP	25.7	36.7	26.4	29.0	34.2	FCF / share	0.03	-0.23	0.81	0.58	0.59
Net Income	21.1	27.6	19.8	22.2	26.0	Book value / share	2.15	2.99	3.64	4.38	5.27
Extraordinary items	-0.8	-1.0	-2.4	-0.7	-0.8	Dividend / share	0.00	0.00	0.00	0.00	0.00
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	129.5	168.4	182.3	203.9	237.6	Revenue growth-%	59%	55%	-16%	7%	15%
Equity capital	62.9	87.4	106.8	128.9	154.9	EBITDA growth-%	84%	46%	-23%	7%	13%
Goodwill	7.5	7.2	8.2	8.2	8.2	EBIT (adj.) growth-%	83%	49%	-24%	-1%	17%
Net debt	2.0	13.6	-8.5	-25.1	-42.3	EPS (adj.) growth-%	98%	31%	-23%	3%	17%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	17%	16%	15%	15%	15%
EBITDA	29.3	42.8	32.8	35.3	39.9	EBIT (adj.)-%	16%	15%	14%	13%	13%
Change in working capital	-17.4	-30.7	14.4	-6.6	-8.2	EBIT-%	15%	15%	13%	12%	13%
Operating cash flow	7.0	2.8	40.2	21.7	23.4	ROE-%	42%	37%	20%	19%	18%
CAPEX	-6.2	-9.7	-16.3	-4.7	-6.0	ROI-%	42%	43%	23%	21%	22%
Free cash flow	0.8	-6.7	23.9	17.0	17.4	Equity ratio	52%	54%	61%	65%	67%
						Gearing	3%	16%	-8%	-19%	-27%
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	2.7	1.9	1.0	1.3	1.1						
EV/EBITDA	15.8	12.0	6.7	8.7	7.3						
EV/EBIT (adj.)	17.2	12.8	7.2	10.2	8.2						
P/E (adj.)	21.2	17.5	10.4	14.7	12.5						
P/B	7.3	5.7	2.1	2.6	2.1						
Dividend-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %						

Source: Inderes

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Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
7/28/2022	Accumulate	16.00 €	14.66 €
10/19/2022	Accumulate	17.00 €	15.08 €
10/28/2022	Reduce	17.00 €	16.06 €
11/18/2022	Reduce	17.00 €	16.18 €
2/23/2023	Reduce	17.00 €	18.04 €
4/19/2023	Accumulate	12.00 €	10.92 €
4/27/2023	Accumulate	12.00 €	10.36 €
6/15/2023	Accumulate	12.00 €	9.96 €
7/4/2023	Accumulate	12.00 €	10.76 €
7/31/2023	Accumulate	12.00 €	10.72 €
10/9/2023	Accumulate	8.00 €	6.40 €
10/26/2023	Accumulate	8.00 €	6.19 €
2/23/2024	Accumulate	9.00 €	7.94 €
5/10/2024	Accumulate	12.50 €	10.92 €
6/24/2024	Accumulate	13.50 €	12.12 €
7/29/2024	Accumulate	13.50 €	11.29 €



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